

**TO: THE SPEAKER
ALL COUNCILLORS
MUNICIPAL MANAGER
ALL DIRECTORS**

Attached please find additional item 4.2 to the agenda for the Special Council Meeting due to be held on 29 March 2018



4.2 **MULTI YEAR DRAFT BUDGET FOR 2018/19 TO 2020/21 (5/1/1) LEW/mm**

1. PURPOSE

To table the draft Capital and Operating Budget for 2018/19–2020/21 in terms of Section 16(2) and 17(3) of the Municipal Finance Management Act, (Act 56 of 2003).

2. BACKGROUND

This council is legally obligated to table the draft Capital and Operating Budget for 2018/19–2020/21 in terms of Section 16(2) and 17(3) of the Municipal Finance Management Act (MFMA). In terms of section 18(1) of the MFMA it states that an annual budget may only be funded from:

- Realistically anticipated revenues to be collected;
- Cash backed accumulated funds from previous years' surpluses not committed for other purposes; and
- Borrowed funds, but only for the capital budget referred to in section 17.

To achieve these above provisions, it means that a Council has compiled a funded budget by ensuring that the budgeted outflows will be offset by a combination of planned inflows.

The budget and accounting formats demand that the budgeted Statement of Financial Performance (Income Statement), the Budgeted Statement of Financial Position (Balance Sheet) and the Budgeted Statement of Cash Flows must be considered simultaneously to ensure the effective financial management and sustainability of the municipal budget.

2.1 A Credible Budget

A budget makes budgetary provision for service delivery to the community of George. The community should realistically expect to receive services that are affordable for which provision is made in a budget.

Amongst other things, a credible budget is a budget that:

- Funds only activities consistent with the revised IDP and vice versa ensuring the IDP is realistically achievable given the financial constraints of the municipality;
- Is achievable in terms of agreed service delivery and performance targets;
- Contains revenue and expenditure projections that are consistent with current and past performance and supported by documented evidence of future assumptions;
- Does not jeopardize the financial viability of the municipality (ensures that the financial position is maintained within generally accepted



prudential limits and that obligations can be met in the short, medium and long term); and

- Provides managers with appropriate levels of delegation sufficient to meet their financial management responsibilities.

Furthermore, draft budgets tabled for consultation at least 90 days prior to the start of the budget year should already be credible and close to the final approved budget. During this financial year 12 Budget Steering Committee meetings were held. The Budget Committee was again confronted with various challenges during the budget process. The following had an impact:

- Although the global economic growth outlook has improved the local economy's GDP is forecasted to increase by 1.5 per cent in 2018 with a moderate improvement over the medium term, 1.8 per cent in 2019 and 2.1 per cent in 2020;
- The main risks to the economic outlook are continued policy uncertainty and deterioration in the finances of state-owned entities;
- The impact of the aforementioned on local governments' ability to markedly contribute to reducing unemployment and poverty;
- The pressures of the slow economy on collection rates and the ability of George Municipality's residents to pay their municipal bill;
- The addressing of service delivery shortcomings as identified in the adjustments budget in February 2018 and its effect on the available funding;
- The continued funding constraints with regards to the low available funding for the Capital Budget through the Capital Replacement Reserve and the ability to take up loans to meet the demand for upgrading and replacing of infrastructure;

A continued strategy was followed as outlined within Council's long term financial plan with the compilation of the draft budget, whereby the following was done:

- The municipality needs to focus on its core functions. During the February 2018 adjustments budget the Budget Committee, Portfolio Councillors in conjunction with the Heads of Departments, scrutinized the budget to affect all possible savings;
- The need to maximize income through efficiencies and the way we do business was investigated before we decided to increase our rates, service charges and other tariffs;
- A revenue enhancement project is ongoing to ensure that all consumers are billed correctly and are contributing to the municipality's income as set out in our tariff policy;
- A provision of R67,986 million was made for debtor's impairment in the operating budget. The writing off, of irrecoverable debt will continue to be scrutinized through the business processes of the internal credit control unit. The unit is guided by an internal credit control committee to ensure that proper credit control measures are performed and to recommend to council the writing off, of debt;



- A provision for a contribution of R45,2 million to the capital replacement reserve (CRR) in the operating budget has been made to grow our reserve;
- The capital contributions policy was reviewed to ensure that the municipality receives fair compensation from bulk capacity sold to developers. The Budget Committee emphasized the principle that developers need to “pay-up-front” before any infrastructure development is carried out by Council;
- A greater emphasis will be placed on improving our cash management practices, within the legal prescripts, to improve our liquidity position.
- The Budget Committee has re-emphasized its wish that the capital budget, as with the previous budget be limited to the available cash funds at our disposal;
- All attempts need to be made to maximize available National and Provincial Government Grants to service part of our capital program;
- The Budget Committee reconfirmed that specific strategic land be identified which may be sold or developed to effect growth in George and to build the CRR.

2.2 Legal Directives

The following legal directives/prescriptions were followed with the compilation of this draft budget:

- National Treasury sent out MFMA Circular No. 89 on 8 December 2017 providing guidance to municipalities on their 2018/19 budget and Medium-Term Revenue and Expenditure Framework (MTREF).
- This was followed up with MFMA Circular No. 91 – on 07 March 2018.

2.3 Municipal Standard Chart of Accounts (mSCOA)

The mSCOA Regulations apply to all municipalities from 1 July 2017. George Municipality has early adopted mSCOA in July 2016 and has been transacting across all the mSCOA segments. It is a complex reform and George Municipality will endeavor to consistently improve as we move on. The reform has also had an impact on almost all our budget “tools” and we need to develop new ways to budget across all mSCOA segments.

2.4 Review of Budget Related Policies

In terms of section 17 (3) (e) of the Municipal Finance Management Act, No. 56 of 2003 it prescribes that the Municipality must review the budget related policies and by-laws (where applicable) annually.

This administration has reviewed the policies and workshops were held where changes were made to the following policies and by-laws:

- Customer Care, Credit Control and Debt Collection Policy and By-laws;
- Property Rates Policy and By-laws;



- Tariff Policy and By-laws;
- Unauthorized Irregular and Fruitless and Wasteful Expenditure Policy;
- Indigent Policy;
- Virement Policy;
- Cash Management and Investment Policy;
- Travel & Subsistence Policy;
- Supply Chain Management Policy;
- PPPFA Policy;
- Asset Management Policy;
- Funding Borrowing & Reserve Policy;
- Long Term Financial Plan;
- Liquidity Policy.

The Budget Committee has indicated that the finalization of the draft policy changes will be finalized after the budget consultation process is completed. The draft policies are contained in the budget documentation and will be placed on the municipal website for public comment. See annexure “C” for detail of the changes to the policies.

2.5 Municipal Budget and Reporting Regulations

The Local Government: Municipal Finance Management Act (Act No. 56 of 2003): Municipal Budget and Reporting Regulations regulate the format of the budget documentation. The relevant draft documentation (budget tables) will be forwarded to National Treasury as legally required and be included in the final budget documentation pack.

2.6 George Integrated Public Transport Network (GIPTN)

George Municipality has commenced with phased roll-out of the GO GEORGE public transport service that aims to provide reliable, affordable, accessible scheduled public transport service to the community of George. The first trial phase commenced on 8 December 2014 and subsequent phases two and three were rolled out in accordance with the schedule agreed to with the Vehicle Operating Company (VOC), George Link (Pty) Ltd, during the 2015/2016 financial year. It is anticipated that phase 4 will begin operating in the 2018/2019 financial year. The next phases, 5 and 6 will be implemented thereafter.

The introduction of this service required that the fare structure for George be included in the tariffs list and that the approved fare structure be gazetted. The interim single paper ticket tariffs have been approved and the introduction of an interim paper Multi Journey Ticket (MJT) has been approved by Council. The Western Cape Department Transport and Public Works has approved the tariffs proposed and the introduction of the MJT. There is currently a process underway with Council for the fare tariff to be reviewed and increased during the current 2018/2019 budget process.



It is the intention of Council to replace the single off-board ticket with a two-trip ticket. The two-trip ticket will be valid for 30 days. Benefits include that it minimizes the opportunity for fraudulent usage of tickets.

It is Council's intention to implement the Automatic Fare Collection System during 2018/19. Fares will be set at the same level as paper tickets however there will be an additional cost related to the issuing of EMV card - (Europay, MasterCard® and Visa®)

The following municipal processes are included within the GIPTN project, and must be managed to meet the project milestones:

- Legislatively required approvals from Council
- Legislatively required public comment processes
- Progress updates to Mayoral Planning, Mayco and Council
- Supply chain management processes for contracting (on-going)
- National grant funding requires milestones for coming years
- Transfer of PTI/PTNO funds contingent on reaching milestones
- High-level milestones will be submitted to NT for payment schedule

The following key milestones of the GIPTN project have been set:

- | | |
|---------------------------------------|--------------------------------|
| ➤ Position of Bus Stops | - Complete for urban stops |
| ➤ Construction Bus Stops (600) | - 95% completed |
| ➤ Operator Contract – final | - November 2014 (concluded) |
| ➤ York Street depot | - Functioning |
| ➤ Fare Collection and ITS Management | - Appointment through Province |
| ➤ Auxiliary contracts | - in progress |
| ➤ Infrastructure | - On-going |
| ➤ Operations, Oversight and Reporting | - On-going |
| ➤ Vehicle Operating Company | - Established and operational |

Corporate Structure – A Council decision taken in 2016 placed the GIPTN function under the Municipal Manager's structure. The latest macro structure has moved the GIPTN function to Protection Services. It would be crucial to ensure that the necessary personnel structure to manage and operate the function is established and capacitated.

It must be specifically noted that the roll-out of the GIPTN project is being implemented on a very restricted budget and roll-out influences revenue required to fund operational costs.

An application was submitted to National Treasury (via the national Department of Transport) for additional funding in the 2016/17 financial year. Infrastructure is a key element, but is dependent on the grant funding received, however, the estimated shortfall is in the region of R85 million. An additional adjustment of R50 million was allocated on 10 March 2017 to provide services in Thembalethu, but specifically for the upgrading of Nelson Mandela Boulevard south of the N2. During the 2016/17 financial period the Municipality could spend R2.7 million in terms of the R50 million adjustments



funding. A tenderer was appointed by 30 June 2017. A roll-over application was submitted to National Department of Transport which was subsequently approved on 1 November 2017. An accelerated implementation plan was approved by the Municipal Manager to ensure that the project is completed by 30 June 2018. The total budgeted amount is expected to be spend by the end of the financial year.

The gazetted national 2018/19 three-year budget for public transport is as follows:

Description	2018/19	2019/20	2021/22
National Grant	(R '000)	(R'000)	(R'000)
Operations	121 404	116 687	96 314
Infrastructure	46 271	-	-
Sub-Total: PTNG	167 675	117 667	124 139
Provincial Grant			
Operation	101 086	106 747	112 618
Sub-Total: GIPTN	101 086	106 747	112 618
Total - Grants	268 761	224 414	236 757

3. CAPITAL BUDGET

The Budget Committee went through several stages of prioritizing the capital budget to contain the budget within the available funding.

The budget committee has prioritized the upgrading of the sewerage treatment works as high and has committed to the taking up of loans to fund this project to the total of R81,525 million (R44,685 million – 2018/2019 & R36,840 million – 2019/2020).

R14,4 million from own funding (CRR) was earmarked for the raising of the Garden Route Dam project. The extension of the waterworks is also regarded as crucial, but has been moved out to the 2019/20 financial year due to the impact that the taking up of external loans has on the operating budget and tariffs. The rehabilitation of the old waste water treatment works has been included in the budget to put back the 6ml module in operations.

This draft capital budget has been compiled with due consideration to the direct impact that it would have on the operating budget and our cash position where projects are to be funded from either internal sources or from external borrowings.

The draft Capital Budget for 2018/19 to 2020/21 is attached as annexure “A” to the agenda.



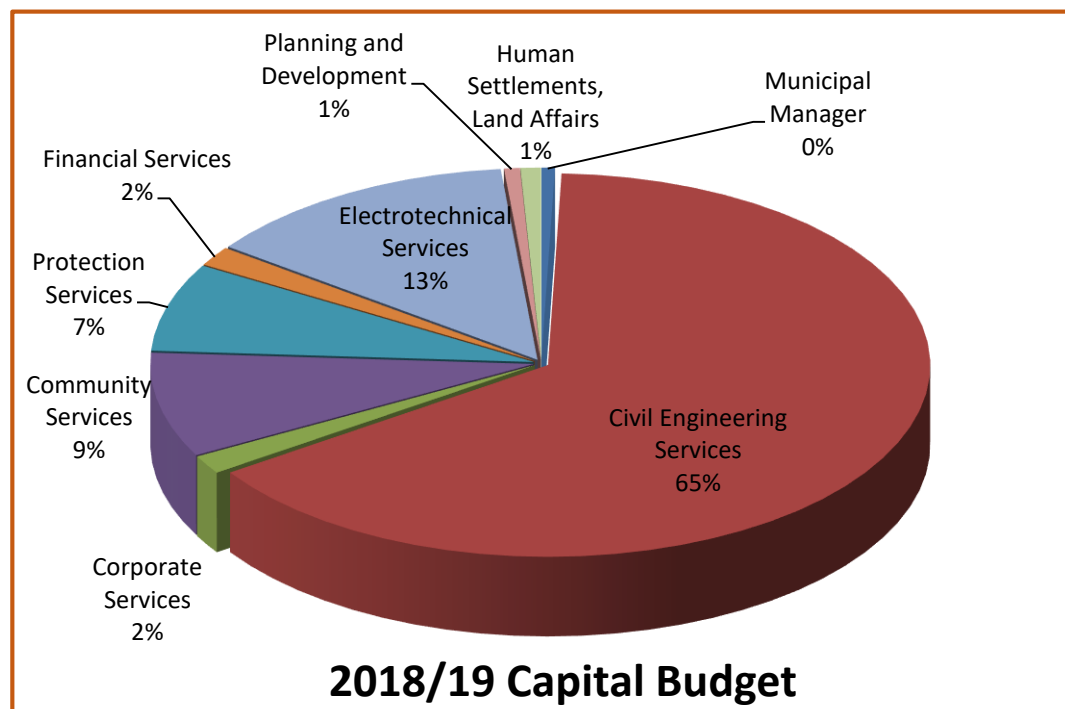
3.1 Capital Budget - 2018/2019 to 2020/2021

Projects to be funded from the Capital Replacement Reserve (CRR) were capped at R161.5 million and R 69.8 million for projects linked to external funding (EFF). Full provision was made for Grant Funded Projects as contained in the Division of Revenue Act.

The housing development in Thembaletu is one of the main developments putting pressure on the waterworks as well as the sewage treatment works. The Western Cape Department of Human Settlements has indicated their willingness to assist with possible grant funding given the magnitude of the housing project and its impact on the bulk infrastructure.

The draft Capital budget reflects the following budget allocation to the various Departments and reflects the strategic priorities outlined in the IDP.

The pie chart below indicates the proposed capital budget per department

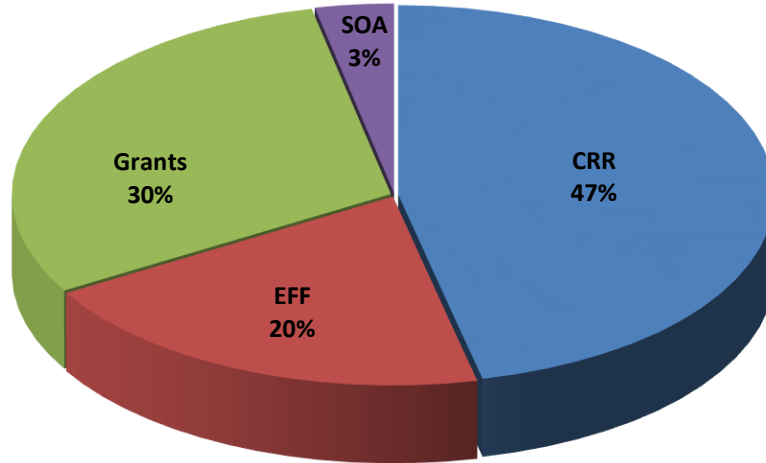


R62,4 million (27,6%) of the total budget for Civil Engineering Services is funded from grants. R29,52 million (47,3%) of the grant funding for Civil Engineering Services is earmarked for the further roll – out of the GIPTN.

The pie chart below indicates the funding mix of the Capital Budget.



2018/19 Capital Funding



Directorate	Total Per Department			
	Adjustments Budget Feb 2018	Proposed 2018/19	Proposed 2019/20	Proposed 2020/21
	R	R	R	R
Municipal Manager	11 251 500	1 959 500	363 000	347 000
Civil Engineering Services	231 126 587	226 111 685	214 311 200	290 251 988
Corporate Services	3 397 245	5 479 355	3 048 000	1 362 000
Community Services	25 642 922	30 712 881	13 806 409	20 601 980
Protection Services	29 498 826	25 898 260	9 822 000	6 782 000
Financial Services	3 767 400	5 756 000	2 917 000	3 103 000
Electrotechnical Services	43 205 630	46 724 457	80 111 827	69 340 001
Planning and Development	805 500	2 330 500	725 000	637 000
Human Settlements, Land Affairs	1 989 466	3 003 500	5 337 000	3 963 000
TOTAL	R350 685 075	R347 976 138	R330 441 436	R396 387 969



3.2 Internal funding of the Capital Program

One of the main challenges impacting on the capital budget is the expected contributions to the Capital Replacement Reserve (CRR) for the current year. This situation also emphasizes the need to expand our current additional income base (sources) and exploring other income sources. The Budget Committee re-affirmed the need to broaden the income base.

A contribution of R25,39 million was made to the CRR in the February 2018 Adjustments Budget from working capital.

Council has introduced a specific line item in the 2013/14 budget to specifically budget for a contribution to the CRR. R40,2 million was budgeted for the current 2017/18 year. The amount budgeted for as an additional own contribution to the CRR is R45,2 million in the 2018/19 financial year.

Although the budgeted income and expenditure are realistically anticipated, the situation regarding the available internal funds will be monitored closely and expenditure on capital projects linked to the CRR will be managed according to the available cash.

Council has in total budgeted for contributions of R73,742 million to the CRR in 2018/19. An assessment of the reserves will be done after the 2017/18 year-end process has been concluded. A further contribution to the CRR will then be made if necessary. R37 million is estimated at this stage.

The table below gives a breakdown of the available budgeted CRR funds.

BUDGETED CRR FUNDING FOR 2018/19						
DESCRIPTION OF CAPITAL REPLACEMENT RESERVED (CRR)	PROJECTED OPENING BALANCE 2018/19	BUDGETED CAPITAL CONTRIBUTIONS	ADDITIONAL BUDGETED CONTRIBUTION TO CRR	BUDGETED VAT INCOME ON GRANTS	WORKING CAPITAL CONTRIBUTION	PROJECTED AMOUNT AVAILABLE FOR CAPITAL EXPENDITURE
General	10 000 000	978 020	24 909 898			35 887 918
Electricity	10 000 000	3 822 850	10 011 322	2 608 696		26 442 868
Water	8 000 000	1 656 570	4 847 478	5 933 948		20 437 996
Sewerage	8 000 000	3 425 220	4 748 866			16 174 086
Sale of Property	9 500 000	10 000 000				19 500 000
Cleansing	3 000 000	117 340	682 436			3 799 776
Parking Facilities	1 500 000					1 500 000
Working Capital	0				37 000 000	37 000 000
TOTAL CRR	R50 000 000	R20 000 000	R45 200 000	R8 542 643	R37 000 000	R160 742 643



3.3 The external funding of the Capital Budget

Although the Long Term Financial Plan indicates that George Municipality's gearing has declined, allowing the municipality to take up external funding, the magnitude of external funding required over the MTREF compelled the Budget Committee to further scrutinize the different planning scenarios before committing to taking up loans more than R600 million. The multi-year planning needs to be spread out over a 5-7-year period to soften the impact of interest and redemption payments on tariffs to the customers.

The Budget Committee considered the requests by the technical departments to take up external loans to fund major upgrading of infrastructure and new infrastructure to provide for the demand created by new developments.

After thorough discussions with the technical departments it was decided to prioritize the upgrading of the sewerage treatment works in the 2018/19 financial year. The upgrading of the water treatment works will receive priority in the 2019/20 financial year. Further planning will be done to mitigate the risks relating to upgrade that will only commence in the 2019/20 financial year.

These projects have been included in the outer years of the capital budget resulting in a huge spike in the budget amount for capital.

The Budget Committee decided to limit the capital projects linked to external funding to the purchase of specialized vehicles. These projects are indicated as funded from EFF on the capital schedule in annexure "A".

4. OPERATING REVENUE BUDGET

The Budget Committee went through a process of tariff modelling and realized that additional income had to be generated over and above the annual increase in tariffs to fund its asset renewal programme.

4.1 Implementation of General Valuation Roll on 1 July 2018

The new General Valuation Roll will be implemented on 1 July 2018 and will be valid to 30 June 2022. The implementation of the General Valuation Roll necessitates an evaluation of the current practices regarding applicable discounts and rebates on rates. Currently a 15% rebate is applicable on all residential charges for rates. With the implementation of the new sent in rand tariff on rates, it is recommended that the 15 % rebate be discontinued.

Furthermore, rural residential properties currently enjoy a 40% rebate on properties used for residential properties. This rebate needs to be discontinued due to current legislation. It is suggested that the 40% rebate on these rural residential properties be phased out as follow:



For the financial year 2018/19 the suggested rebate will be 20%. For the 2019/20 financial year it is suggested that the rebate will be 0%.

The Municipal Valuer valued these properties taking into account the selling prices of properties in the rural environment e.g. how far the property is situated from the CBD, schools and hospitals etc. Furthermore, the owners of these properties have legal recourse through objections and appeals against the valuations of their properties if they wish to do so.

Some properties that housed flats are currently valued and classified in the 2012 Valuation Roll as residential properties. Typically, these flats are developed and rent out by property owners. During the preparation of the General Valuation Roll to be implemented on 1 July 2018 the Municipal Valuer reclassified and valued these properties as business. As such these properties will be charged business rates tariffs as from 1 July 2018.

4.2 Rates Charges

4.2.1 Municipal Valuation Threshold

On qualifying residential properties, up to a maximum valuation of R150 000 which amount includes the R15 000 as per Section 17(1)(h) of the MPRA and the R135 000 reduction granted as per paragraph E1.1.2 of the approved Rates Policy will be deducted from the total valuation before rates are levied.

4.2.2 Rates Revenue

Given the above-mentioned implementation of the general valuation roll Council is estimating that a 9% increase in rates revenue will be realized.

4.3 Services charges and other tariffs

The following tariff increases are proposed:

- Water - 8%
- Electricity - 6.84%
- Refuse - 15%
- Sewerage - 8.5%
- General Tariffs - 6%
- DMA tariffs - apply GM tariff increases

4.4 NERSA's increase guideline for Electricity

NERSA's guideline for all local-authority tariff increases, effective from 1 July 2018, is 6.84%.



The local authority tariff increase of 6.84% is effective from 1 July 2018 to 30 June 2019. During the April 2018 to June 2018 three-month period, the 2017/18 local authority tariffs are applicable.

NERSA sets benchmark tariffs as a guideline and it should be noted that the guideline is not an automatic increase in tariffs. This municipality has a distribution license and is still required to apply to NERSA for the approval of our tariffs.

4.5 Eden Regional Landfill Site

The following points give background and content to the progress regarding the establishing of a new regional landfill silo. Petro SA has afforded the authorities a further 18 months' extension before closure of the PetroSA site. George Municipality has started with several projects to reduce household waste, garden waste and builder's rubble.

- Bitou, Mossel bay, George and Knysna – dispose waste at PetroSA landfill Site.
- PetroSA reached full capacity – unable to provide service in future.
- Each municipality cannot construct and finance own landfill sites: Too costly and appropriate land is limited .
- Municipal Systems Act No 32 of 2003 Section 78 (1) & (3) assessments were performed and decided that services to be provided through a PPP.
- Provincial Treasury requested to obtain views and recommendations of NT:
 1. Treasury Views and Recommendations, I based on submission of Feasibility Study Report.
 2. Treasury Views and Recommendations II A based on procurement documents.
 3. Treasury Views and Recommendations (TVR) II B still outstanding.
- 4 reputable companies/proposed consortia were pre-qualified to serve the 4 municipalities under a PPP arrangement.
- Bid process completed in December 2015.
- Application to obtain TVR IIB submitted in January 2016 and not received – implications: Cannot proceed to next step in establishing PPP process (project is unaffordable based on original costs of R99 million per year for 10 years).
- Municipalities in budgeting phase.
- Municipalities to determine sources of funding

Although negotiations regarding the costs of the proposed regional landfill site is still ongoing, the current tariff will have to increase. A thorough tariff modelling exercise was done and it was decided that the refuse tariff be increased by 15%.



4.6 Proposed Tariff Adjustments for 2018/19 – 2020/21 Medium Term Revenue Expenditure Framework (MTREF)

The Budget Committee made use of tariff modelling to determine realistic tariff increases. Although the Budget Committee endeavored to contain the increase within the 3 to 6 per cent inflation target band forecasted, the model indicated that this was not possible.

To have a funded budget the following tariff increases are recommended for the MTREF:

Average tariff increase				
Category	Base Budget 2017/18	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2021/22
Property Rates	11.00%	9.00%	6.00%	6.00%
Electricity	1.88%	6.84%	6.00%	6.00%
Water	8.00%	8.00%	8.00%	8.00%
Sanitation	8.00%	8.50%	8.50%	8.50%
Refuse	15.00%	15.00%	15.00%	15.00%
Other	6.00%	6.00%	6.00%	6.00%

See attached Annexure “B” the draft notice to the public regarding the proposed tariff adjustments for 2018/19 financial year.



4.7 Summary of Revenue by Source

The table below gives the year-on-year growth / decline in revenue sources.

REVENUE BY SOURCE			
	Adjusted Budget 2017/18	Budget Year 2018/19	% Increase
Revenue By Source			
Property rates	233 904 108	254 955 490	9,00%
Service charges - electricity revenue	606 182 516	647 627 780	6,84%
Service charges - water revenue	124 258 090	134 198 740	8,00%
Service charges - sanitation revenue	82 391 700	89 394 990	8,50%
Service charges - refuse revenue	67 656 810	77 804 720	15,00%
Rental of facilities and equipment	5 279 210	5 595 990	6,00%
Interest earned - external investments	36 644 785	38 610 376	5,36%
Interest earned - outstanding debtors	5 233 050	5 805 290	10,94%
Fines, penalties and forfeits	69 939 830	72 568 530	3,76%
Licences and permits	3 155 830	3 345 190	6,00%
Agency services	7 949 770	8 426 760	6,00%
Other revenue	79 000 141	106 480 646	34,79%
Transfers and subsidies - operational	429 796 691	537 706 993	25,11%
Transfers and subsidies - capital	250 648 711	109 708 008	-56,23%
Gains on disposal of PPE	0	0	0,00%
Total Revenue	2 002 041 242	2 092 229 504	4,50%

The operating revenue increases from R2 002 242million to R2 092 229 504 million.

The 4.5% increase in revenue is mainly due to:

- An increase in Other Revenue– Operational is mainly due to an increase in the GIPTN fare revenue for the roll-out of further phases.
- An increase in Transfers Recognised – Operational is mainly due to an increase in the following grant:
 - Human Settlements Grant (R19.5m – 2017/18 to R140.7m – 2018/19)



- The Equitable Share allocation has increased (R122.6m – 2017/18 to R137.4m – 2018/19).
- The implementation of IGRAP 1 had an impact on the calculation for the proposed Fines income.
- The decrease in Transfers Recognised – Capital is mainly due to a decrease in the following grants:
 - Public Transport Network Grant (PTNG) – (R73.6m – 2017/18 to R40.6m -2018/19);
 - Human Settlements Grant (R46.9m – 2017/18 to R841 thousand – 2018/19); and
 - Integrated National Electrification Programme (INEP) – (R18m – 2017/18 to R13m -2018/19).

The table also gives the percentage increases in property rates and the service charges.

5. OPERATING EXPENDITURE BUDGET

5.1 Final accepted outer limits:

The budget steering committee decided on the following outer limits for the expenditure categories:

- Salary Budget - 7%
- Repairs & maintenance – infrastructure - 8% + input from the departments
- Repairs & maintenance – other - 8%
- Electricity Bulk Purchases - 7.32%
- General Expenses - items based on adjustments budget and adjusted per motivation by departments
- Contracted Services - based on the adjusted budget and adjustments motivated by the departments.

5.2 Eskom bulk tariff increases

On 28 February 2018, the National Energy Regulator of South Africa (NERSA), published their “Municipal Tariff Approval Process for the 2018/19 Financial Year”. The NERSA document proposes a 6.84 per cent guideline increase for municipal electricity tariffs for 2018/19. The consultation paper on tariff benchmarking indicates that this will result in a 7.32 per cent increase



in bulk tariffs to municipalities (the difference is due to the different financial years of Eskom and municipalities) from 1 July 2018.

5.3 Expenditure by type

The operating expenditure has increased from R 1 798 268 225 million in 2017/18 (February adjustments budget) to R2 016 698 654 million in 2018/19. The 12.15% increase in expenditure as contained in the table below giving the year-on-year growth/decline in expenditure by type.

EXPENDITURE BY TYPE			
R thousand	Adjusted Budget 2017/18	Budget Year 2018/19	% Increase
Employee related costs	480 768 509	532 780 998	10,82%
Remuneration of councillors	22 269 339	18 649 070	-16,26%
Debt impairment	64 138 560	67 986 870	6,00%
Depreciation & asset impairment	156 509 393	162 428 729	3,78%
Finance charges	38 109 822	32 340 016	-15,14%
Bulk purchases	409 442 060	439 392 470	7,31%
Other materials	36 054 270	38 738 520	7,45%
Contracted services	492 928 571	610 088 623	23,77%
Transfers and subsidies paid	1 200 000	1 272 000	6,00%
Other expenditure	96 247 701	112 385 358	16,77%
Loss on disposal of PPE	600 000	636 000	6,00%
Total Expenditure	1 798 268 225	2 016 698 654	12,15%

The increase in expenditure is mainly due to:

- Contracted Services: This is mainly due to the increase in the budget for operational expenditure on Housing Projects and the GIPTN.
- The reclassification in mSCOA changed the Repairs and Maintenance item to Contracted Services.
- Other expenditure: An additional amount of R9.5 million has been provided for the Regional Landfill Site.



5.4 Employee related costs

The following factors were considered during the budget for employee related cost.

- The three-year Salary and Wage Collective Agreement for the period 01 July to 30 June 2018 has lapsed. The South African Local Government Bargaining Council is currently in negotiations with the Trade Unions to reach an agreement.
- Employee Related Costs – An increase of 7% was provided for salaries and wages.
- The process of prioritizing the critical vacant posts will be completed before finalizing the budget in May 2018.
- An amount of R23.084 million has been budgeted for the contribution to the post retirement benefit obligation.

6. INDIGENT SUPPORT AND HOUSEHOLD BILLS

6.1 Indigent support

The indigent qualification criteria will be enforced more rigorously to ensure that those who do not qualify are removed from the allocation list. This saving on the equitable share allocation, if any, will allow Council to make an additional contribution from the operating account to fund the provision of free basic services.

It must be remembered that such indigent support is not subsidized from services charges collected from the citizens of George.

The proposed allocation to Indigent households will have the following financial consequences:

The proposed package of free basic services allocated to the indigents consists of the following:

Description	Escalation (%)	2017/18 (R)	2018/19 (R)
Water (Basic)	8%	78.45	84.73
Water 6kl	8%	82.43	89.04
Electricity	6.84%	79.91	85.37
Refuse	15%	165.67	190.55
Sewer	8.5%	187.69	203.65
Total		R593.81	R653.34



6.2 Monthly Households Bills

The follow spreadsheets give the impact of the tariff increases on the monthly household bills.

The below monthly account for a “middle” income range” household uses on basis a property value of R700 000, 1 000 kWh electricity and 30kl water.

Description	2016/17	2018/19 Medium Term Revenue & Expenditure Framework		
	Actual	Budget Year 2017/18	Budget Year 2018/19 % incr.	Budget Year 2018/19
Rand/cent				
<u>Monthly Account for Household - 'Middle Income Range'</u>				
Rates and services charges:				
Property rates	285.30	316.68	9.0%	345.20
Electricity: Basic levy	–	–		–
Electricity: Consumption	1 605.80	1 636.00	6.8%	1 747.90
Water: Basic levy	72.64	78.45	8.0%	84.73
Water: Consumption	369.12	398.60	8.0%	430.56
sub-total	441.76	477.05	8.0%	515.29
Sanitation	173.79	187.69	8.5%	203.65
Refuse removal	144.08	165.70	15.0%	190.55
Other				
sub-total	2 650.73	2 783.12	7.9%	3 002.58
VAT on Services	331.16	345.30		398.61
Total large household bill:	2 981.89	3 128.42	8.7%	3 401.19
Increase			272.77	8.7%



Description	2016/17	2018/19 Medium Term Revenue & Expenditure Framework		
	Actual	Budget Year 2017/18	Budget Year 2018/19 % incr.	Budget Year 2018/19
Rand/cent				
<u>Monthly Account for Household - 'Affordable Range'</u>				
Rates and services charges:				
Property rates	202.00	224.22	9.0%	244.41
Electricity: Basic levy	–	–		–
Electricity: Consumption	802.90	818.00	6.8%	873.95
Water: Basic levy	72.64	78.45	8.0%	84.73
Water: Consumption	281.32	303.80	8.0%	328.16
sub-total	353.96	382.25	8.0%	412.89
Sanitation	173.79	187.69	8.5%	203.65
Refuse removal	144.08	165.70	15.0%	190.55
Other				
sub-total	1 676.73	1 777.86	8.3%	1 925.44
VAT on Services	206.46	217.51	15.9%	252.15
Total small household bill:	1 883.20	1 995.37	9.1%	2 177.60
Increase			182.23	9.1%

The above monthly account for an “affordable range” household uses as basis a property value of R500 000, 500kWh electricity and 25 kl water.



Description	2016/17	2018/19 Medium Term Revenue & Expenditure Framework		
	Actual	Budget Year 2017/18	Budget Year 2018/19 % incr.	Budget Year 2018/19
Rand/cent				
<u>Monthly Account for Household - 'Indigent' Household receiving free basic services</u>				
Rates and services charges:				
Property rates		–		–
Electricity: Basic levy		–		–
Electricity: Consumption	392.14	399.53	6.84%	426.86
less: free units	(78.43)	(79.91)	6.84%	(85.37)
sub-total	313.71	319.62	6.84%	341.49
Water: Basic levy	72.64	78.45	8.0%	84.73
Water: Consumption	193.52	209.00	8.0%	225.76
less: equitable share	(72.64)	(78.45)	8.0%	(84.73)
sub-total	193.52	209.00	8.02%	225.76
Sanitation	173.79	187.69	8.5%	203.65
less: equitable share	(173.79)	(187.69)	8.5%	(203.65)
sub-total	–	–		–
Refuse removal	144.08	165.70	15.0%	190.55
less: equitable share	(144.08)	(165.70)	15.0%	(190.55)
sub-total	–	–		–
sub-total	507.23	528.62	7.3%	567.25
VAT on Services	71.01	74.01	15.0%	85.09
Total indigent household bill:	578.24	602.63	8.2%	652.34
Increase			49.71	8.2%

Most of the indigent households live in housing units with a property value below the property rates threshold of R150 000 and therefore are exempted from paying property rates.

The electricity and water bill is based on a usage of 350 kWh and 25kl respectively. The indigent households receive 70kWh electricity units, 6kl water as well as the basic water charge for free.

The indigent household furthermore receives free basic sanitation and refuse removal.



7. RECOMMENDATION

That the following draft resolutions in terms of sections 16(2) and 17(3) of the Municipal Finance Management Act, (Act 56 of 2003) be noted for final approval in May 2018. **[FD]**

DRAFT RESOLUTIONS (To be approved in May 2018)

- (a) that the following draft policies be tabled for public comment:
 - (i) Customer Care, Credit Control and Debt Collection Policy and By-law;
 - (ii) Property Rates Policy and By-law;
 - (iii) Tariff Policy and By-law,
 - (iv) Unauthorized, Irregular and Fruitless and Wasteful Expenditure Policy;
 - (v) Indigent Policy;
 - (vi) Virement Policy;
 - (vii) Cash Management and Investment Policy;
 - (viii) Travel & Subsistence Policy;
 - (ix) Supply Chain Management Policy;
 - (x) PPPFA Policy;
 - (xi) Asset Management Policy;
 - (xii) Funding Borrowing & Reserve Policy;
 - (xiii) Long Term Financial Plan;
 - (xiv) Liquidity Policy
- (b) that the draft annual budget for the financial year 2018/19 and indicative outer years 2019/20 and 2020/21 be tabled as set-out:
 - (i) Capital expenditure by project as contained in annexure "A" to the agenda;
 - (ii) Capital funding by source as contained in annexure "A" to the agenda;
 - (iii) Operating revenue by source as contained in Table A4 of the report;
 - (iv) Operating expenditure by type as contained in Table A4 of the report;
- (c) that the tariffs for property rates as reflected in the report be tabled for the budget year 2018/19;
- (d) that tariffs and services charges as reflected in the formal tariff list be tabled for the budget year 2018/19;
- (e) that the draft Service Delivery and Budget Implementation Plan (SDBIP) be tabled for the budget year 2018/19 as contained in annexure "B" to the agenda;
- (f) that the capital funding, both internal and external funding, be secured prior to the commencement of any new capital project;
- (g) that the draft annual budget documentation for 2018/19– 2020/21 as outlined in the budget regulations be submitted to National and Provincial Treasury.



8. AANBEVELING

Dat daar kennis geneem word van die volgende konsep besluite in terme van artikels 16(2) en 17(3) van die Wet op Plaaslike Regering: Munisipale Finansiële Bestuur, (Wet 56 van 2003), vir goedkeuring in Mei 2018. **[FD]**

KONSEPBESLUIT (Word in Mei 2018 goedgekeur)

- (a) Dat die volgende konsepbeleide ter tafel gelê word vir openbare kommentaar:
- (i) Kliënte diens-, kredietbeheer-, en skuldinvorderingsbeleid en Verordening ;
 - (ii) Eiendomsbelastingbeleid en verordening;
 - (iii) Tariefbeleid en verordening;
 - (iv) Ongemagtigde, onreëlmatige of vrugtelose en verkwiste bestedings beleid;
 - (v) Deernisbeleid;
 - (vi) “Virement”– beleid;
 - (vii) Kontantbestuur- en Beleggingsbeleid;
 - (viii) Reis en Verblyfbeleid;
 - (ix) Voorsieningskanaalbestuursbeleid;
 - (x) PPPFA beleid,
 - (xi) Batebestuursbeleid;
 - (xii) Befondsing, Lenings en Reserwebeleid;
 - (xiii) Lang Termyn Finansiële Plan;
 - (xiv) Likiediteitsbeleid
- (b) dat die konsep begroting van die munisipaliteit vir die jaar 2018/19 asook die daaropvolgende twee jare 2018/19 en 2020/21, soos uiteengesit ter tafel gelê word:
- (i) Kapitaaluitgawe per projek soos vervat in aanhangsel "A" tot die agenda;
 - (ii) Kapitaalbefondsing per finansieringsbron soos vervat in aanhangsel "A" tot die agenda;
 - (iii) Bedryfsinkomste per finansieringsbron soos vervat in Tabel A4 van die verslag;
 - (iv) Bedryfsuitgawe per tipe uitgawe soos vervat in Tabel A4 van die verslag;
- (c) dat die tariewe op eiendomsbelasting soos gereflekteer in die verslag vir die 2018/19 begrotingsjaar ter tafel gelê word;
- (d) dat tariewe en heffings soos uiteengesit in die formele tarieflyste vir die 2018/19 begrotingsjaar ter tafel gelê word;
- (e) dat die konsep Dienslewering- en Begrotingsimplementeringsplan soos vervat in aanhangsel "B" tot die agenda vir die 2018/19 begrotingsjaar goedgekeur word;
- (f) dat 'n kontrole proses in werking gestel word om die beskikbaarheid van kapitaalfondse, interne sowel as eksterne fondse, te verseker alvorens nuwe kapitaalprojekte 'n aanvang neem;



- (g) dat die konsep begrotings dokumentasie vir die jaar 2018/19– 2020/21, soos uiteengesit in die begrotingsregulasies, aan Nasionale Tesourie en Provinsiale Tesourie gestuur word.

9. ICEBO

Kukuba ezi zigqibo ziyiliweyo zilandelayo ngokwamacandelo e-16(2) kunye ne-17(3) oMthetho wokuPhathwa kweMali kaMasipala, (uMthetho wama-56 ka-2003) ziqatshelwe malunga nokuphunyezwa kokugqibela kuCanzibe 2018.

IZIGQIBO EZIYILIWEYO: (eziya kuphunyezwa kwinyanga kaCanzibe 2018)

- (a) ukuba le migaqo – nkqubo ilandelayo iphunyezwe:

- (i) Umgaqo-nkqubo woKhathalelo lwabaThengi, ukuLawulwa kwaMatyala kunye nokuQokelelwa kwaMatyala;
- (ii) Umgaqo-nkqubo weeRhafu zePropati;
- (iii) Umgaqo-nkqubo woLuhlu lweeRhafu,
- (iv) Umgaqo-nkqubo weNkcitho engaGunyaziswanga eNxamnye noMthetho kunye nengenaNgeniso neneNkcitho engenaNgeniso;
- (v) Umgaqo-nkqubo wabaNgathathintweni;
- (vi) Umgaqo-nkqubo woTshintshelo lweMali kwi-akhawunti ethile ifakwe kwenye I-akhawunti;
- (vii) Umgaqo-nkqubo wokuLawulwa kweMali kunye noTyalo -mali;
- (viii) Umgaqo-nkqubo wokuHamba & nemali enikezelelwa iindleko zokuhamba;
- (ix) Umgaqo-nkqubo wokuLawula kweNtengiso;
- (x) Umgaqo-nkqubo wePPPFA ;
- (xi) Umgaqo-nkqubo wokuPhathwa kweZinto zeXabiso;
- (xii) Umgaqo-nkqubo wokuBolekwa kweNgxowa-mali & noVimba;
- (xiii) Isicwangciso seMali seXesha eLide;
- (xiv) Umgaqo-nkqubo wokuba neMali yokuHlawula Amatyala

- (b) kukuba uhlahlo-lwabiwo-mali oluyiliweyo lukamasipala lukanyaka mali ka-2018/19, kunye nolungumqondiso weminyaka emibini engaphandle ka-2018/19 no 2020/21 luphunyezwe njengoko lubonisiwe:

- (i) Inkcitho-mali eyinkunzi ngokwe projekthi njngoko kubonisiwe kwisihlomelo "A" se ajenda;
- (ii) Inkxaso-mali yenkunzi ngokwamacandelo njengoko kubonisiwe kwisihlomelo "A" se ajenda;
- (iii) Ingeniso-mali yentsebenzo ngokwamacandelo njengoko kubonisiwe kwisalathiso A4 sengxelo;
- (iv) Inkcitho-mali yokusebenza ngokwamasebe njengoko kubonisiwe kwisalathiso A4 sengxelo;

- (c) kukuba iirhafu zezindlu njengoko kubonakalisiwe kwingxelo, zilandelwe kuhlalo-lwabiwo mali lonyaka 2018/19;



- (d) kukuba uluhlu lweerhafu no lweenkonzo njengoko lubonakaliswe kuluhlu lwerhafu olusemthethweni luphunyezwe kuhlalo-lwabiwo mali lonyaka 2018/19;
- (e) kukuba Isicwangciso sokuziswa kweenonzo kunye nokufezekiswa kohlahlo-lwabiwo mali (iSDBIP) esiliweyo siphunyezwe kuhlalo-lwabiwo-mali lonyaka 2018/19;
- (f) kukuba kwaziswe indlela yokuqinisekisa ukufumaneka kwenkxaso-mali eyinkunzi, inkxaso-mali yangaphakathi neyangaphandle, phambi kokuqala kwayo nayiphina iprojekthi eyinkunzi;
- (g) kukuba uhlalo- lwabiwo- mali oluyiliweyo lukamasipala lukanyaka mali ka-2018/19 kunye nolungumqondiso weminyaka emibini engaphandle ka-2018/19 no-2020/21 njengoko lubonisiwe kuxwebhu olusemthethweni lungeniswe kwiSebe lezeMali leSizwe.

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**SIGNING OFF OF REPORT**

FOR PURUSAL	INITIAL & SURNAME	SIGNATURE	DATE
AUTHOR	L E WALLACE		
HEAD OF DIRECTORATE	K. JORDAAN		
MUNICIPAL MANAGER	T. BOTHA		
FINANCE PORTFOLIO COUNCILLOR	STAG CRONJE		
COMMITTEE	SPEC COUNCIL MEETING		